Annual Report 2003

Innovative Technology Solutions for the Financial Services Industry

Datawest

2003 Annual Report

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2003 YEAR AT A GLANCE

Q1

- Datawest achieves its second consecutive profitable quarter.

Q2

- Datawest achieves its third consecutive profitable quarter.

Q3

- Datawest achieves its fourth consecutive quarter of profitability.
- Datawest implements functionality to support individual sign-on to its banking system through Member*Direct*® Internet banking – the first in Canada to do so. This functionality is one of the key concepts in Canadian credit unions' aggregation strategies.

Q4

- Datawest's fifth consecutive profitable quarter also marks the first full year of profitability for the company.
- Datawest becomes a full *Interac*® Direct Connector after being certified as an *Interac* Direct Payment® (IDP) acquirer. Our IMN switch is now fully certified in all four elements of electronic payment processing – issuer and acquirer for both Shared Cash Dispensing (SCD) and IDP – and is positioned for end-to-end processing of all *Interac* ATM and POS transactions.

Our Mission Statement

To provide innovative technology solutions for the financial services industry

Our Core Business

At Datawest we design, build, integrate and operate advanced banking and payment technologies for the financial services industry through an outsourcing delivery model. Datawest is a single-source services provider, offering a fully integrated banking system, electronic funds transfer (EFT) switching services, Internet and phone banking channels, professional services, operational support services and product and enhancement sales. We provide our clients with the economies of scale inherent in a shared processing environment along with their choice of integrated ancillary products from a comprehensive solutions suite assembled through alliances with key industry partners. This allows financial institutions of all sizes to offer their customers advanced banking services through multiple access channels, anytime, anywhere.

Our Services

Datawest offers consulting services on implementation and integration of our banking system, EFT switching services and ancillary products in our suite of solutions. Our professional services consultants are acknowledged experts in implementation and integration of banking solutions based on Sanchez Computer Associates' Profile® banking system software in both domestic and International financial institutions. We have been providing technology solutions, training and operational support to the financial services industry for nearly 25 years.

Banking Solutions Group – *You Can Bank On Us*

Datawest's Banking Solutions Group is a leading provider of banking system outsourcing to Canadian credit unions, with more than 85 credit unions in two provinces using our banking solutions to serve over 700,000 members, representing approximately 2.5 million accounts on our database. We offer our clients one of the industry's most comprehensive information processing solutions by integrating our full-function core banking application with advanced ancillary products and services and providing the convenience of multi-channel access (Internet, phone, ATM, POS). A team of experienced help desk and professional services employees provides support to our clients for their banking solutions on a 24/7 basis. We also provide switching services for ATM and POS transactions for the financial services industry.

Payment Solutions Group – *We Move Money*

Datawest's Payment Solutions Group operates Canada's largest ATM network, comprising nearly 8,000 devices. We also operate more than 5,000 debit and credit point-of-sale (POS) terminals for merchants across the country. Datawest is the market leader in providing device management, transaction routing, monitoring and settlement for acquirer dial-up ATMs and debit and credit POS devices, with a choice of credit solutions.

Datawest provides switching services for ATM and POS transactions, as well as stand-alone licensed payment system software applications and consulting services for the financial services industry. We count many financial institutions around the world as clients. Our client base consists of both large and small financial organizations, including the Caribbean subsidiaries of three Canadian banks and the three national debit networks in Trinidad, Jamaica and Barbados.

Datawest

To Our Shareholders

Executing on key business strategies established in 2002 and spurred by the positive results we attained in the latter part of that year, Datawest entered 2003 determined to achieve sustained profitability, become self-sufficient and improve its competitive positioning. To do this, we established and executed many business and process improvement initiatives that helped us meet our objectives. We are pleased to see our efforts pay off as we achieved record growth in both earnings and operating earnings over prior years, ending the year by posting our fifth consecutive profitable quarter and emerging as a much stronger organization overall.

Financial Performance

In the months immediately following the company's August 2002 restructuring and throughout 2003, Datawest demonstrated steady incremental improvement in its financial performance, reporting meaningful gains each quarter. Faced with declining revenues in our Banking Solutions Group due to consolidation and merger activities in the credit union industry, we applied fiscal discipline across our entire organization, carefully and effectively managing our costs and improving operating efficiency while continuing to pay down our debt. And we actively sought and pursued opportunities to further improve upon our financial success, including the completion of an operating lease buyout that helped increase both earnings and operating earnings.

Challenges and Opportunities

We fully expected 2003 to be a challenging year for our business, and it was. Mergers and consolidations in the credit union system continued – albeit at a slower rate than in previous years – and our banking revenues felt the impact. Uncertainty in our banking market space intensified with the emergence of a potential new player – Celero Solutions – an information technology company created by five Canadian prairie-based financial cooperative organizations; and through the debut of US-based service provider Fiserv in the Canadian credit union territory. In the payments arena, Celero Solutions partnered with NYCE Corporation to form Everlink Payment Services to displace CGI's agreement with Credit Union Central of Canada to provide switching services for the national credit union system. These developments created greater fragmentation in the credit union industry, making the landscape increasingly more volatile.

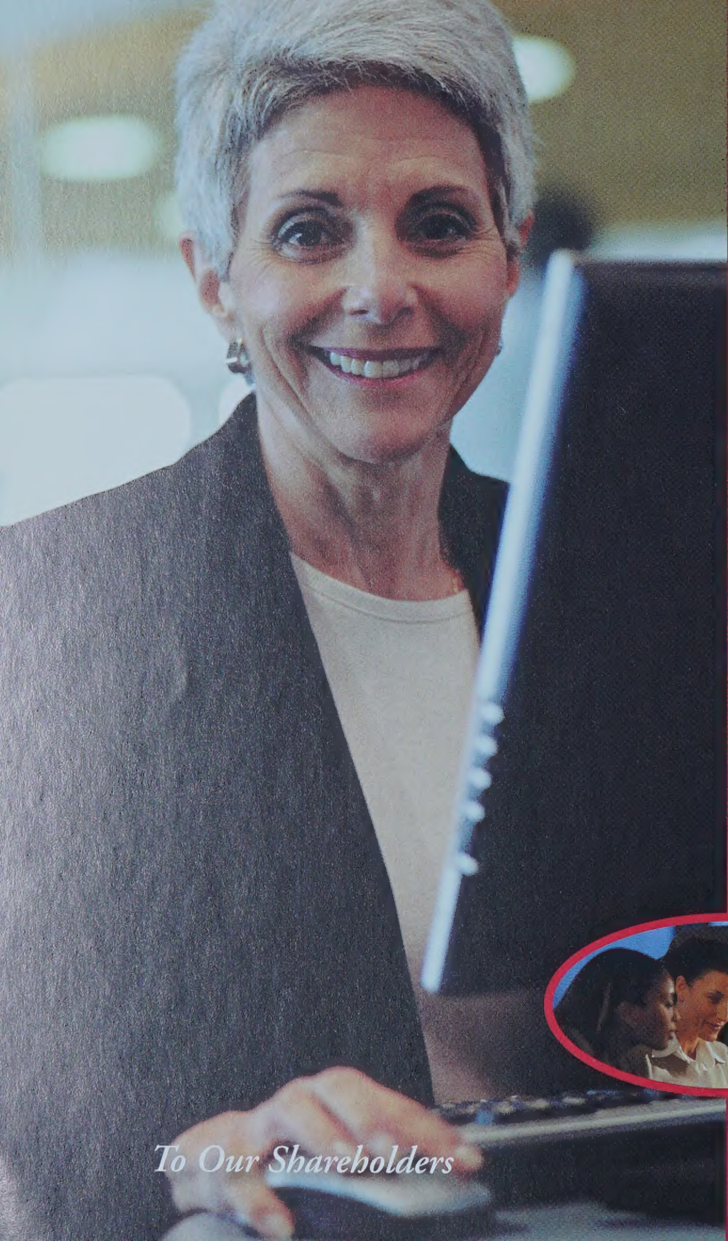
We positioned our company to meet these challenges by continuing to improve our management processes in order to become more nimble and flexible. We made a number of management changes in first quarter 2003 and then reorganized our lines of business over the course of the ensuing months, tightening procedures, streamlining operations and fostering greater accountability for results. We fine tuned processes such as project planning, project management and development, enabling us to be more responsive to clients' requests. And we realigned our corporate infrastructure to take the company into the future.

Datawest continues to pursue new ways in which to grow business and revenues in both our business segments. Our Banking Solutions product and service suites are comprehensive, yet modular and flexible, making them attractive to niche players in the financial services market place. Our Payment Solutions Group has both scope and scale to pursue and win large-scale contracts with top-tier financial institutions. Professional services resources in both business lines possess skill sets that can readily be applied in industries beyond banking and payments.

Banking Solutions Group

In 2003, the primary focus of our Banking Solutions Group (BSG) was on servicing our renewed credit union business. Having concluded the majority of data services contract renewals in 2002 – including most of our large BC clients and CEAMS in Saskatchewan – our sales team turned its attention to helping our clients maximize their relationship with Datawest. Our sales executives took a proactive approach, working with clients to provide the right solutions for their growth and success through cross sales of system enhancements and third-party products integrated with our core banking system. To support the sales efforts, we made significant improvements in the provision of our development initiatives, meeting quality and delivery targets more consistently.

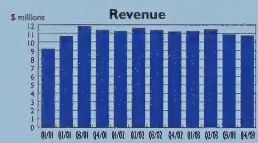
We completed a number of major projects during the year, including launching our new phone banking system and successfully installing our CRM and loans origination solutions. Most notable was our promised delivery of a number of Member*Direct*® Internet banking enhancements, including the individual sign-on functionality that lets members of our credit union clients access all the accounts linked to their customer information file (CIF), regardless of membership number. Individual sign-on is one of the key concepts in the Canadian credit union system's account aggregation strategy. Datawest clients offering individual sign-on functionality will be positioned to lead the way to the next stage of Credit Union Central of Canada's "Connectivity" project – using Member*Direct* to offer members an aggregated view of their financial information at participating institutions. Datawest is the first in Canada to make this Member*Direct* functionality available to its clients, underscoring our continuing commitment to demonstrate technology leadership by delivering solutions our clients need to be competitive and progressive.

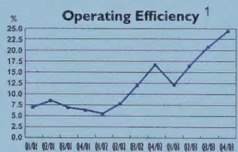


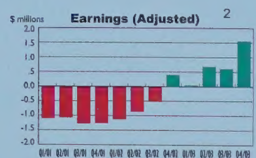
To Our Shareholders

By year end 2003, Datawest's role in the project to replace Scotiabank's mortgage banking system was substantially complete. Since 2002, Datawest has served as a contractor to provide Canadian customization, development, integration, and implementation services to integrate Scotiabank's mortgage loan application with its Sanchez Computer Associates' banking platform. Our expertise in implementing and integrating Sanchez's banking system technology was a key factor in Scotiabank's selection of the Datawest/Sanchez solution to address legacy system issues. With this project, we demonstrated once again our skills and expert knowledge in leading-edge banking system software and our ability to work successfully with Tier-1 financial institutions outside of the credit union community.

Throughout 2003, Datawest continued to progress on its project to determine the feasibility of migrating to a new banking system platform – *f*-BIZ. We added to the features and functionality originally envisioned, and have researched and selected revised technical approaches to enable us to better deliver the key *f*-BIZ components. We established a steering committee to represent the needs of our banking system clients and are working with this committee to confirm requirements and sequence client priorities.







1. Operating efficiency is defined as operating income adjusted for unusual items, as a percentage of total revenues.
2. For reconciliation of adjusted earnings, refer to table on page 15.

Payment Solutions Group

We saw solid growth in the Payment Solutions Group (PSG) business line in 2003. We added nearly 800 new ATMs last year, bringing the total on our ATM network to approximately 8,000 devices. Key deployments included installations of ATMs at a number of high-volume gaming locations. As a consequence, we processed more transactions and saw our market share increase by nearly nine million ATM transactions in 2003, resulting in significant revenue growth.

In 2003, Datawest was chosen by ATM provider Diebold, and Scotiabank, to process transactions made at Scotiabank-owned ATMs at Shell Canada locations. Working with Diebold, we are connecting nearly 500 Shell ATMs to the IMN *(Interac)* switch in our PSG processing centre. Our innovative switching technology allows us to route transactions processed on these ATMs by Scotiabank customers directly to the bank using the *Interac* backbone network – in effect, creating a proprietary network – without special links between our processing centre and Scotiabank's banking system. The outsourcing of select ATM functions is gaining popularity in the banking industry and Datawest is well positioned to capitalize on this emerging trend with our comprehensive suite of processing services.

By year end 2003, Datawest had added more than 2,100 POS terminals to its network, resulting in a substantial increase in transaction processing volumes and revenue growth.

With our certification in October as an *Interac* Direct Payment® (IDP) acquirer, Datawest's IMN switch is now fully certified in all four elements of electronic payment processing – issuer and acquirer for both Shared Cash Dispensing (SCD) and IDP – making us a full Direct Connector with the Interac Association. This positions us for end-to-end processing of all *Interac* ATM and POS transactions for our financial institution clients without having to route them through a third party, resulting in lower operational costs and greater opportunities.

PSG broadened its suite of products in 2003 by adding electronic prepaid services through point-of-sale (POS) terminals. By year end, we had developed new terminal applications to deliver this service through the majority of the devices on our network. On the ATM front, Datawest now supports more than 40 ATM types on its financial switch. The addition of new ATM models with advanced functions and innovative features creates an excellent value proposition for our independent sales organizations (ISOs) who are putting the ATMs into service. We also expanded our strategic Sprint-based virtual private network (VPN) by adding the provider Syntex, enabling us to extend our VPN service right across the country.

As we continue to evolve our business, we are making significant progress on several fronts. We are better at planning, more capable with implementation and more consistent in the execution of our projects. We are working with our clients to develop and deliver the products and enhancements they need – and this has translated into sales success in the BSG business line. We are leveraging our key strengths in the payments industry – reliability, performance and innovation – in the continued growth and dominance of Datawest's PSG in the electronic payments market.

Our objective is to build profitable growth, not just growth for growth's sake. To this end, we will continue to apply fiscal discipline and better management processes to promote revenue growth and improved operating efficiency.

We are getting better at what we do and the results are starting to show in the bottom line. We wish to thank our management team and all Datawest employees for their outstanding efforts throughout the year and their significant contribution to these results. Our goal for 2004 is to continue in the positive direction set in 2003.

Darryl J. Yea
Chairman, CEO & President

Datawest's Banking Solutions Group provides more than 85 financial institution clients with:

- *an integrated banking system*
- *EFT switching*
- *professional services*
- *innovative products*

Business Partner

Datawest is more than just a provider of outsourced banking system services – we are our clients' business partner. We meet our clients' business technology needs, consistently living up to our slogan – *"you can bank on us!"*

As a services provider, Datawest's task is to fulfill financial institutions' data processing needs – efficiently, reliably and cost-effectively – giving our clients the opportunity to concentrate on their core strengths in delivering financial services to their customers. As a business partner, we listen to our clients and work with them to design, develop and deliver technology solutions to help fulfill their business strategies.

Processing

Datawest delivers cost-effective outsourced online banking services to its clients through a reliable, highly available and secure system solution based on Sanchez Computer Associates' Profile® platform – advanced top-tier technology used by nearly 400 financial institutions worldwide.

At Datawest's data centre, online real-time access to customer data is available on a 24/7 basis to meet the widespread demand for data and transaction processing through integrated remote access channels

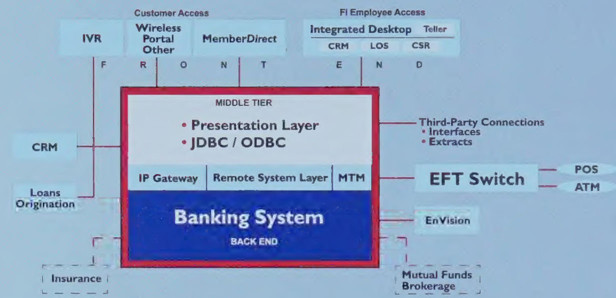
You can talk to us | We listen

such as ATMs, direct debit, phone and Internet banking. Datawest's banking data centre operation fully complies with regulatory and industry best practices for physical safeguards and data security and integrity. We deliver quick response times and uninterrupted service. Our service level standards are tailored to the needs of our clients and call for measurement of availability during peak processing periods as well as overall. In 2003, we exceeded all our service level targets, providing service that was consistent with our commitment.

Datawest's support of its banking system clients is second to none. Our support services employees are responsive, skilled and experienced both in our applications and front-line banking operations. They use proven methodology to deliver end-to-end issue management and apply a combination of knowledge, experience and creative problem-solving techniques that resolves nearly 90 percent of all issues within the first day of receipt. Datawest support services also is responsible for change control and maintenance of the banking system. In 2003, many system improvements were installed through regular software releases throughout the year.

Datawest is working with its clients to develop a solution which will enable a migration from its current advanced banking system to an n-tier architecture featuring a graphical user interface (GUI) front end, an open, scalable middle tier, and continued use of the robust, high-performance Sanchez back-end processor. This powerful new banking platform – *f*-BIZ – will enable Datawest banking system clients to more effectively address their key business issues: growth and increased share of wallet; customer demand for convenient access and new products; and improved operating efficiency. Through its architecture, *f*-BIZ provides easier access to the data our clients require to build and manage their relationships with their customers, helping their staff to win customers' loyalty and increase share of wallet. The *f*-BIZ middle tier incorporates business rules and a standardized interface, which makes it easier to develop and integrate new products, services and access channels in rapid response to customer demand. This ability to develop and integrate quickly reduces the cost of change. In addition, the browser-based *f*-BIZ GUI front end helps to improve operating efficiency by enhancing staff productivity through simplified workflows and reduced training times.

N-Tier Architecture

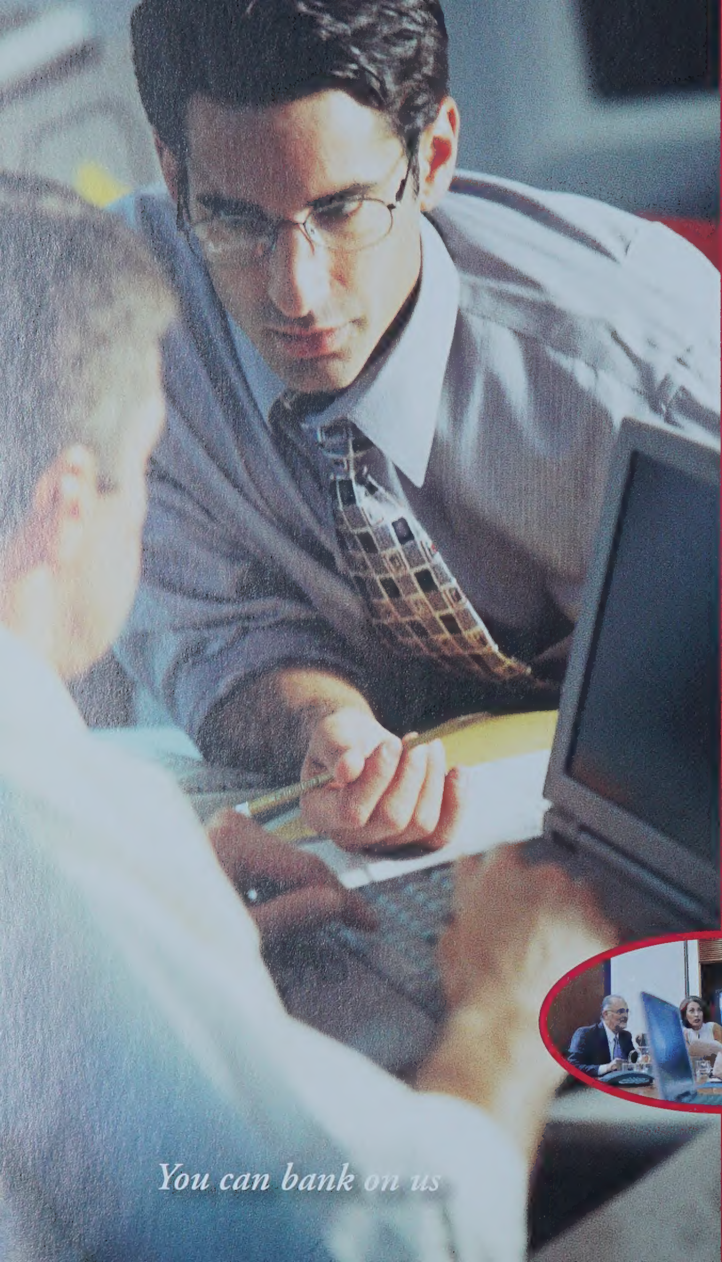


Professional Services

Datawest's highly skilled professional services experts have nearly 25 years' experience in operating our complex processing systems. We provide systems implementation and integration services, development and training.

Our implementation consultants are known for their expertise and excellence in the installation and integration of Sanchez banking solutions, in Canada and worldwide. They also have a broad range of standard business analysis and project management skills. Their implementation process is both efficient and high-touch, offering clients "Gold Level" service that is user-friendly and supportive.

Datawest's development group is responsible for building and integrating software solutions that meet the needs of our clients, such as new products, interfaces to connect third-party products and services with Datawest's core system, and banking system functionality enhancements. In 2003, our development group enhanced the banking system to accommodate a significant advance in Member*Direct*® Internet banking functionality – individual sign-on using a card personal account number (PAN) to provide an aggregated view and access to accounts. Datawest is the first in Canada to provide this Member*Direct* capability to its clients.

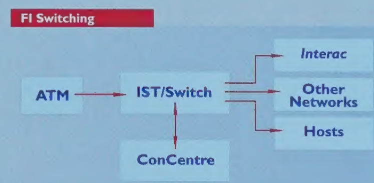


B a n k i n g

Datawest's management information reporting (MIR) professionals help our clients turn data into the information they need to grow their business through better understanding of their customers' needs, behaviours and profitability dynamics. Their primary tool is EnVision, Datawest's off-host reporting service, which uses industry-standard query and reporting tools to extract and analyze data drawn from the banking system. More than 80 percent of Datawest's financial institution clients subscribe to the EnVision service, using it to facilitate creative solutions to their business issues. EnVision's power and flexibility can be used by any financial institution operating on the Sanchez Profile banking platform. Our MIR consultants are skilled in a combination of the right tools and knowledge to help clients achieve meaningful results.

EFT Switching

Commencing in 2004, BSG will operate Datawest's EFT switching network of approximately 175 full-function ATMs (withdrawals, deposits, transfers, inquiries) for nearly 40 Canadian financial institutions, providing them with shared cash transaction processing, ATM monitoring and 24/7 support. Datawest provides enhanced ATM features that allow financial institutions to extend the functionality of touchpoints like the Internet or call centre banking to this key access channel. Optional enhancement bundles can include ATM attraction screens, surcharging options, support for multiple languages, "mini" account statements, and integrated ATM bill payment functionality.



You can talk to us | We listen

Product and Enhancement Sales

Datawest augments its banking system offering by providing integrated best-in-class ancillary products with its core banking solution.

CRM

In our role as an application services provider, we offer our clients a customer relationship management (CRM) solution in partnership with Pivotal Corporation. We operate, maintain, and support the CRM application, accessible by financial institution staff through a cost-effective thin client delivery model. CRM enhances the proficiency of our clients' sales force by providing the tools to gather data and access business intelligence to better understand the needs of their customers and organize activities sales staff can use to prospect and cross-sell their products and services.

Loans Origination

Datawest has partnered with HomeBank Technologies Inc. (HTI) to offer clients a hosted web-enabled loans origination solution through HTI's ProLender product. ProLender is an integrated, end-to-end loan processing system for consumer and commercial lending.

Phone Banking

Our new, function-rich Datawest Phone Banking product provides maximum flexibility for creating voice scripts and manipulating features simply with the click of the mouse. In addition to the functions currently available through phone banking – e.g. balance inquiries, funds transfers, bill payment – Datawest's Phone Banking product offers callers new features such as "quick balance", context-sensitive help from a single key, expanded transaction search capabilities, and the ability to switch between two customer accounts during the same call.

Enhancements

Datawest provides clients with system and product enhancements that address their specific business needs. In 2003, we introduced a number of functionality enhancements to our banking system and ancillary product offerings, ensuring our clients keep pace with – and in some instances, lead – other financial institutions in the provision of advanced banking services.

Virtually every Datawest client in BC now uses our cheque imaging print solution, which replaces physical cheques by including cheque images with our bank statement production. This process saves time and reduces labour costs associated with manual handling of bank statements with cheques and, at the same time, improves customer service and satisfaction through faster delivery of bank statements to customers.

Our Banking Solutions Group provides the people, experience and technology to meet Datawest's commitments to our business partners by delivering value through advanced, reliable core systems; responsive support services; product flexibility and choice; technology innovation; and expanded access channels, thereby fulfilling our slogan *"you can bank on us!"*.

Channels	Products	Management Information
Teller	Loans origination	Off-host reporting service
Phone banking	Customer relationship management	Asset and liability management
Internet banking		
ATM	**FI Switching**	
POS	ATM	

P a y m e n t

Datawest's Payment Solutions Group provides over 100 independent sales organization (ISO) clients with:

- *Shared Cash Dispensing processing*
- *Interac® Direct Payment® processing*
- *product and license sales*

Business Partner

Simply put, Datawest's network links card-based ATMs or point-of-sale (POS) devices with the appropriate financial institution accounts for debit and credit transactions, hence our Payment Solutions Group slogan – *"we move money"*.

As a services provider, Datawest consistently delivers high network availability with the assured transaction integrity, security and authentication that our clients expect. As business partners, we work with our clients to provide improved technology, operations and risk management techniques that reduce the back office support and system monitoring needed to manage their business.

Datawest is a fully certified Direct Connector to the Interac Association as an acquirer and issuer for both Shared Cash Dispensing (SCD) and *Interac* Direct Payment (IDP) transactions.

Processing

Datawest's Payment Solutions Group maintains its dominant position in the privately deployed white label ATM and POS processing market. We continued significant growth in 2003, expanding our network to over 13,000 ATMs and POS terminals providing payment processing services to Canadians.

Datawest processes ATM and POS transactions and manages and monitors a full range of ATM and POS devices. We applied nearly 25 years of experience in the financial services industry to developing and maintaining the comprehensive service called POSHnet, which operates our high-availability network of thousands of ATM and POS devices, 24 hours a day, seven days a week.

High availability is maintained by a skilled 24/7 operations group backed by an in-house team of expert software developers. Datawest consistently exceeds both third-party network requirements and its service level agreements for network availability, averaging 99.9 percent in 2003.

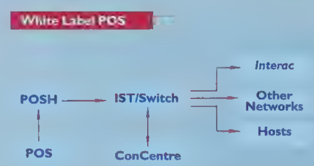
Shared Cash Dispensing

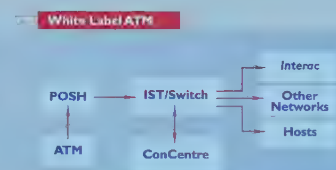
Shared Cash Dispensing is the service that allows Canadians to withdraw cash from any ATM in the country displaying the familiar *Interac* logo. On a per capita basis, Canadians use ATMs and debit more than anyone else in the world. Datawest provides transaction processing services for approximately 20 percent of all ATMs operated by *Interac* members across Canada.

Datawest provides solutions that enable ISOs to deliver the best service to their customers, so that today we operate over 35 percent of the privately deployed banking machines in Canada, clearing nearly $4.0 billion per year through these white label terminals.

As technology partners, we support more than 40 different types of ATMs, many of which are priced for use in low-volume retail locations on dial-up lines. We are extremely proficient in managing these machines effectively and at low cost. Datawest has developed back-office settlement and fee management systems that support the calculation and payment of interchange fees, surcharges and other fees, and provides cash settlement services to up to seven different parties from each ATM. All of this activity is documented in a full suite of reports distributed electronically.

Datawest clients can choose the most cost-effective method of connecting a terminal to our network, from dial-up "1-800" support to a complete Internet Protocol (IP) connectivity solution for ATM processing. In 2003, we expanded our strategic Sprint-based virtual private network (VPN) by adding the provider Syntex, which offers different geographic coverage. By using both providers, Datawest now is able to extend its VPN service right across the country while maintaining its fast, reliable performance.





Interac Direct Payment

Interac Direct Payment is the POS system that allows Canadians to make "cashless" purchases by drawing money electronically from their bank accounts.

Datawest extended the ISO sales model successfully developed for the ATM business to the POS terminals and services arena. Building on nearly 15 years of experience in developing and deploying POS systems for banks internationally, Datawest developed a set of POS terminal applications available on a variety of certified hardware platforms, including Hypercom, Ingenico and Verifone. Datawest's POS offering is unique in Canada, featuring a growing series of value-added functions to the terminal which make it appealing to many segments of the retail industry. For example, we support surcharging at the POS terminal, tips and tip percentages on debit transactions and wireless portable terminals, and in 2003 introduced the ability to sell prepaid cellular airtime to consumers.

Datawest works with several parties to provide bundled POS solutions. We are in partnership with Scotiabank to provide merchants with a one-stop integrated payment solution for both credit and debit card processing on a single POS device. The convenient bundled solution routes IDP traffic through Datawest and credit card processing, including Visa, MasterCard and American Express, through Scotiabank.

Product and License Sales

Our clients either install and use our systems in-house or outsource their operations to us. In addition to transaction processing, we develop software and perform software installation and customization in the implementation of our systems and applications.

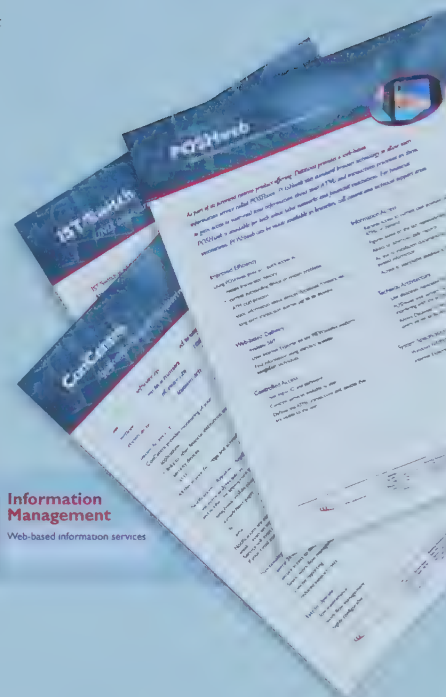
Datawest's flexible approach to application development is geared towards supporting enhanced revenue-generating potential and streamlining operations. Our application monitoring solutions have been developed to let clients analyze traffic and anticipate future events along with the standard functionality of monitoring and alerting, so they can act on situations before they become crises. Most are applications Datawest developed to help us run a complex transaction processing network – our own.

Datawest has established relationships with organizations worldwide for the sale and implementation of our payment applications and in 2003 added Oasis Technology Ltd., a leading provider of software to process payments, to expand the market for Datawest's ConCentre software. ConCentre is a web-based system supporting large ATM and POS networks. Sales of ConCentre to the National Commercial Bank Jamaica Limited and Riyad Bank Saudi Arabia closed in early 2004.

POSHweb is another Datawest payment systems product offering that is available for both white label networks and financial institutions. It's a web-based information service that gives users near-real time access to information about their ATMs and the transactions processed on them. Web-based delivery gives clients remote access to both recent and long-term transaction information, making POSHweb a strategic customer service tool.

Datawest is also a value-added reseller of Oasis Technology's IST/Switch product. We install and support the IST/Switch as a packaged product or customized for client needs. With more than 50 IST/Switch installations, Datawest supplies payment systems services to over 50 percent of the financial institution market in the major Caribbean Islands.

We fulfill our slogan – *"we move money"* – as the Canadian leader in payment processing.



White Label Switching	Products	Information Management
ATM	Application network monitoring	Web-based information services
POS		

We respond | We work with you to provide solutions | Real Value!

Overview

The following discussion should be read in conjunction with the financial statements and notes included elsewhere in this annual report.

Datawest was established in 1980 to provide cost-effective transaction processing to a group of credit unions in BC. In the ensuing two decades Datawest has evolved to become a leading provider of innovative technology solutions and professional services, both in Canada and internationally. We design, build, integrate and operate banking and payment solutions, providing an integrated banking system, electronic funds transfer (EFT) switching systems, Internet and phone banking channels, professional services, and product license and enhancement sales. We operate through two business lines – Banking Solutions Group (BSG) and Payment Solutions Group (PSG).

The largest percentage of Datawest revenues comes from BSG, which provides data processing services to more than 85 credit unions in BC and Saskatchewan. Collectively, these credit union clients service more than 700,000 members, the basis of our recurring data processing revenue stream. Professional service engagements and product license and enhancement sales account for the remainder of BSG revenues. BSG revenues are directly affected by the ongoing merger and consolidation activity in the credit union industry.

PSG operates the largest ATM network in Canada, comprising nearly 8,000 devices. We also operate over 5,000 debit and credit point-of-sale (POS) terminals for merchants across the country. We deploy PSG products and services through independent sales organizations (ISOs). More than 75 percent of PSG revenues come from processing transactions for ATMs and POS devices. Studies show that Canadians are, per capita, the highest users of electronic financial services in the world and Datawest's PSG business growth reflects this statistic. Although the ATM market in Canada is mature, it still shows steady growth in both devices and transactions. The POS market is still emerging and growth is strong.

Datawest operates internationally through professional services engagements and product and license sales. Approximately eight percent of Datawest's revenues are denominated in US dollars from clients located in the Caribbean, United States, Europe, the Middle East and Asia.

Datawest is based in Vancouver, BC, and has offices in Oakville, Ontario and Winnipeg, Manitoba. As at December 31, 2003, the Company employed approximately 200 people. Of these, approximately 80 were engaged in product development and professional services; 90 in fulfillment and support activities; and 30 in general, administrative and corporate functions.

Critical Accounting Policies

Datawest's financial statements are prepared in accordance with Canadian generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management bases its estimates on historical experience and other assumptions that it believes are reasonable in the circumstances. These estimates are reviewed by our auditors. Actual results may differ from the estimates.

The following accounting policies reflect the more significant estimates and assumptions used in the preparation of our financial statements:

Goodwill and Goodwill Valuation

Goodwill relates to the Company's acquisition of TCS (Canada) Limited, a provider of electronic payments software and processing services. The Company recognized additional goodwill during fiscal 2003 for contingent consideration being earned. Management applies CICA HB Section 3062, "Goodwill and Other Intangible Assets" and uses valuation models and makes assumptions to perform the annual impairment test. The annual impairment test is a two-stage test:

i) Assess the recoverability of the reporting unit by comparing the fair value of the reporting unit to the carrying amount of the reporting unit. The Company performs its annual impairment test on September 30th of each year. As at September 30, 2003, the fair value of the Company's reporting unit exceeded its carrying value and as a result no impairment existed.

ii) When the carrying amount of the reporting unit exceeds its fair value, a calculation of goodwill impairment is required by comparing the fair value of goodwill to the recorded value of goodwill. For fiscal 2003, the shortfall did not exist and no calculation of goodwill impairment was required. Future impairment tests could result in impairment charges.

Revenue Recognition

Revenue recognition is critical because it is a key indicator of the Company's financial performance. Management follows specific guidelines in recognizing revenue and makes estimates and assumptions that affect the reported amounts of revenue. A delay in recognizing revenue causes operating results to vary significantly from quarter to quarter. The Company primarily earns revenue from data and transaction processing. The Company also installs licensed software and enters into longer-term development project contracts. Many contracts, including contracts involving software-licensing sales, have multiple element arrangements. These contracts may include development, license, installation, training, and support and maintenance elements.

Data and transaction processing and professional services revenues are recognized as the related services are provided when there is persuasive evidence of an arrangement, collection is probable and the fee is fixed or determinable. Revenue on long-term development contracts is recognized using the percentage-of-completion method based on hours and materials costs incurred relative to total estimated costs. Changes in estimates of contract price, total estimated costs, or estimated losses, if any, are included in the determination of estimated cumulative revenues and expenses in the period the change is determined by management.

In accordance with the provisions of the American Institute of Certified Public Accountants' Statement of Position 97-2 "Software Revenue Recognition", revenue from one-time software license sales is generally recognized once delivery has occurred and collection of the fee is probable, provided there are no significant vendor obligations remaining. If there is a requirement for client acceptance of any products delivered, revenue is only recognized after client acceptance has been achieved. Revenues related to the maintenance and support of software licenses are recognized ratably over the term of the contract.

For multiple element sales arrangements, revenue is allocated to each element based upon objective evidence of fair value, or verifiable objective evidence of fair value in the case of software license sales, of each element at the inception of the sales arrangement. For certain multiple element sales or service arrangements, revenue is allocated by the residual value method whereby the fair value of the undelivered elements is determined by reference to objective evidence, or verifiable objective evidence in the case of software license sales, from comparable arrangements with the balance of the fees assigned to the delivered elements. Revenue is recognized for each element when there are no remaining performance obligations required based upon their relative fair value at the inception of the sales arrangement. When fair value cannot be determined for each element, revenue is deferred until objective, or verifiable objective evidence in the case of software license sales, exists or is recognized as the final elements are delivered.

Prepayments for services are amortized to income over the period the services are delivered. Deferred revenue consists of client prepayments for services and products sales prior to revenue being recognized.

Restructuring and Other Charges

Restructuring and other charges relate to streamlining business operations and improving operating efficiency in BSG in both August 2002 and November 2003. In November 2003, this restructuring included a provision for workforce reduction. Management identifies and estimates the costs that affect the amount of restructuring charges recorded. Actual costs may differ from these provisions and could result in adjustments that would be charged against restructuring and other charges in subsequent periods.

Discontinued Operations (Contingencies and Litigation)

Discontinued operations relate to the discontinued brokerage and financial planning businesses conducted by C.M. Oliver & Company Limited and Planvest Financial Services Inc. The remaining accrued discontinued operations costs relate to outstanding legal proceedings. Management evaluates and assesses costs and damages associated with the legal proceedings that affect the amount of provision charged to income for the year. Future costs and damages that exceed these provisions could result in losses that would be charged against discontinued operations in subsequent periods.

Allowance for Doubtful Accounts

Allowance for doubtful accounts relate to estimated losses that may arise if any of our customers are unable to make required payments. Management specifically analyzes the age of outstanding customer balances, historical bad debt experience, customer credit-worthiness and changes in customer payment terms when making estimates of the uncollectability of the Company's amounts receivable balance. If the Company determines that the financial condition of any of its customers deteriorates, increases in the allowance may be made.

Impairment of Long-lived Assets

Whenever events or changes in circumstance indicate that the carrying value may not be recoverable, the Company assesses the impairment of long-lived assets. Factors the Company considers important, which could trigger an impairment review include significant underperformance relative to plan, a change in the Company's business strategy, or significant negative industry or economic trends. When the Company believes that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of potential impairment, the Company determines what impairment, if any, exists based on projected net undiscounted cash flows expected to be generated from these assets. During 2002, the Company recorded an impairment of capital assets of $6,255,956.

Recent Accounting Pronouncements

Impairment of Long-lived Assets and Disposal of Long-lived Assets

In 2002, the Canadian Institute of Chartered Accountants (CICA) issued section 3063, "Impairment of Long-lived Assets" and section 3475, "Disposal of Long-lived Assets and Discontinued Operations." Section 3063 provides accounting guidance for the determination of a long-lived asset impairment as well as recognition, measurement and disclosure of impairment. This section is effective for the Company's fiscal year beginning January 1, 2004. The Company does not believe that adoption of CICA 3063 and CICA 3475 will have a material affect on the Company's financial results.

Results of Operations

Datawest achieved earnings of $2.2 million in 2003 and the fourth quarter of 2003 marked the fifth consecutive quarter of profitability. The Company achieved its goal of improving operating earnings and earnings over 2002. Earlier in the year, Datawest restructured its management team and reorganized the way in which it operates its two divisions. This has resulted in significant improvements in operating efficiency.

Earnings for the year were $2.2 million, an $8.9 million improvement compared to last year's loss of $6.7 million. Operating earnings before other items rose to $8.2 million compared to an operating loss of $4.8 million in 2002. Adjusted earnings for the year were $2.9 million compared to a $2.1 million loss last year, and adjusted operating earnings before other items saw a substantial improvement to $9.0 million for the year compared to $4.1 million last year.

BSG experienced a decline in overall revenues for the year primarily from lower data processing revenues as a result of consolidation in the credit union industry. Management has continued to improve operating efficiency and scale the business appropriately in relation to our processing volumes. The decline in data processing revenue is partially offset by the higher utilization of our professional services and increased product and license sales. PSG showed growth in transaction processing revenues by continuing to add devices resulting in a greater number of transactions processed on its network. In the fourth quarter, a new secondary site in the Toronto area was added to the network that increases processing and volume capacity to accommodate a higher number of transactions and new customers.

Management's focus on financial performance combined with a business restructuring in the fourth quarter positioned the Company to efficiently operate into the future. The $0.8 million restructuring recognized in fourth quarter 2003 related primarily to workforce reduction. The Company estimates the business restructuring initiative will result in a cash operating cost improvement and an incremental net income improvement of $1.0 million annually.

	Years Ended December 31	
	2003	2002
Operating earnings (loss) before other items under Canadian GAAP	**$ 8,155,920**	$ (4,774,288)
Restructuring charges	**1,200,139**	8,911,323
SRED refund	**(335,800)**	-
Adjusted operating earnings before other items	**$ 9,020,259**	$ 4,137,035

Earnings (loss) under Canadian GAAP	**$ 2,207,719**	$(6,653,195)
Restructuring charges	**1,200,139**	8,911,323
SRED refund	**(335,800)**	-
Gain on sale of other assets	**(275,600)**	(4,267,102)
Settlement of contract	**(171,000)**	(292,000)
Loss on discontinued operations	**250,000**	235,000
Adjusted earnings (loss)	**$ 2,875,458**	$(2,065,974)

Revenues

Total revenues for 2003 were $44.5 million compared to $45.0 million in 2002.

Banking Solutions Group revenues for 2003 were $26.9 million compared to $28.1 million for 2002. Banking revenues consisted of the following:

	Years ended December 31			
Revenues (000s)	2003		2002	
Data processing	$ 18,823	70%	$ 21,681	77%
Professional services	6,622	25%	4,959	18%
Product & license sales	1,461	5%	1,149	4%
Other	27	-	304	1%
	$ 26,933	100%	$ 28,093	100%

Data processing revenues supported by long-term contracts declined from the prior year as certain existing BC and Saskatchewan credit union customers deconverted off the banking system due primarily to merger and consolidation activity in the credit union industry. The Company is actively increasing sales and marketing activities to obtain new banking system clients in Canada to replace this reduction.

Professional services sales increased by 34 percent or $1.7 million over last year primarily due to the work undertaken on the Bank of Nova Scotia mortgage banking system replacement project. During 2003, Datawest's management team maximized the utilization rate for our professional services across various projects and complementary product and license sale implementations.

Product and license sales increased by 27 percent or $0.3 million over last year as the Company completed the installation of several hosted CRM, web-based loans origination applications, and hosted enhancements amounting to $1.4 million for the year, but will recognize the upfront license fees over the life of the customers' contract terms. The Company launched a new phone banking product and hosted connectivity solutions, which will be installed and implemented throughout 2004.

Payment Solutions Group revenues for 2003 increased by four percent to $17.5 million compared to $16.9 million for 2002.

	Years ended December 31			
Revenues (000s)	2003		2002	
Transaction processing	$ 13,025	75%	$ 12,407	73%
Professional services	1,601	9%	1,613	10%
Product & license sales	2,666	15%	2,851	17%
Other	235	1%	-	-
	$ 17,527	100%	$ 16,871	100%

Transaction processing revenues increased by five percent or $0.6 million as the group continued to increase the number of white label ATM and point-of-sale devices on the Company's network. By year end there were nearly 8,000 ATMs and over 5,000 POS devices being managed by Datawest. In 2003, Datawest became a full *Interac* Direct Connector and has certified the Company's *Interac* switch in all four elements of electronic payment processing to permit end-to-end processing of all *Interac* ATM and point-of-sale transactions. The market for ATM transaction processing has matured, resulting in more aggressive pricing by other service providers. To efficiently provide transaction processing, a new secondary site in the Toronto area was added to the network that increases processing and volume capacity to accommodate a higher number of transactions and new customers.

Professional services continued to make a solid contribution with revenues consistent with 2002. The Company is progressing steadily with the development of proprietary software applications as part of a new payments network being implemented in Saudia Arabia and elsewhere. Installations of the Company's ATM products for larger financial institutions in the Caribbean are expected to continue into the future.

Product and license sales were slightly lower as a result of the Company focusing on the development of the next generation of our own proprietary switching software which we are beginning to deploy within the Company as well as package for marketing to the broader markets.

Expenses

Expenses for 2003 of $35.1 million, prior to the restructuring and other charges of $1.2 million, were a $5.7 million or 14 percent improvement over the prior year. The improved operating efficiency is due to management's focus on better financial performance and the operational restructuring.

	Years ended December 31			
	2003		2002	
Expenses	*(000s)*	*% of revenues*	*(000s)*	*% of revenues*
Service and operations	$ 25,769	58%	$ 30,172	67%
General and administrative	4,754	11%	5,346	12%
Sales and marketing	1,631	3%	2,483	6%
Research and development	2,950	7%	2,826	6%
Expenses before restructuring and other charges	35,104	79%	40,827	91%
Restructuring and other charges	1,200	3%	8,911	20%
Total expenses	$ 36,304	82%	$ 49,738	111%

Service and operations expenses for 2003 decreased by 15 percent or $4.4 million to $25.8 million compared to $30.2 million in 2002. The decrease is due to improved operating efficiency from cost containment measures, the benefits of the workforce reductions, and the termination of an operating lease obligation.

General and administrative expenses for 2003 decreased by 11 percent or $0.6 million to $4.8 million compared to $5.3 million in 2002 as the Company continued to reduce discretionary general and administrative expenses and realize benefits from the Company's restructuring initiative in 2002.

Sales and marketing expenses for 2003 decreased by 34 percent or $0.9 million to $1.6 million compared to $2.5 million in 2002 as the Company substantially reduced discretionary sales and marketing expenses as part of its ongoing cost reduction measures.

Research and development expenses for 2003 increased by four percent or $0.1 million to $2.9 million compared to $2.8 million in 2002. Research and development expenses were incurred in developing application enhancements for banking and payment system clients.

Interest expense was slightly lower than the prior year at $2.0 million compared to $2.1 million in 2002 as the Company continued to reduce its debt.

Amortization of capital and other assets decreased by $0.3 million to $4.3 million compared to $4.7 million in 2002 primarily due to write-down of capital assets in the 2002 restructuring.

Other income, net was $0.5 million for 2003 compared with $4.9 million in 2002 and consisted of non-operating items. Other income in 2003 included the gain on disposal of the Company's investment in Bourse de Montreal shares of $0.3 million and other items, including a settlement of contract and an increase in accrual for loss on discontinued operations. The prior year primarily consisted of the gain on disposal of the Company's investment in TSX shares of $4.3 million.

Earnings for 2003 were $2.2 million compared to a loss of $6.7 million for 2002. On a normalized operating basis, excluding the restructuring charges and other income, earnings for 2003 were $2.9 million compared to a net loss of $2.1 million in 2002. This resulted in a significant improvement of $4.9 million compared to 2002. The improvement was due to the realization of the restructuring benefits and discretionary cost reductions and improved operating efficiency measures implemented.

Liquidity and Capital Resources

Working capital decreased by $2.1 million at December 31, 2003 compared to December 31, 2002 due primarily to investment in capital assets and repayment of long-term debt during the year.

Amounts receivable decreased by $0.9 million to $6.2 million at December 31, 2003 compared to $7.1 million at December 31, 2002.

Accounts payable and accrued liabilities decreased by $1.6 million to $5.0 million at December 31, 2003 compared to $6.6 million at December 31, 2002.

Capital expenditures were $6.0 million for 2003 and were primarily related to the purchase of certain hardware and software assets that were previously leased. Capital expenditures were also incurred for additional processing facilities and capacity as a result of recent customer additions and future customer requirements in PSG.

Long-term debt and prepaid data services applied increased by $2.4 million and $2.5 million, respectively, during the year to finance the acquisition of certain capital assets used in operations.

Total repayment of debt and prepaid data services increased to $6.6 million during the year compared to $5.4 million in 2002 consistent with the increase in long-term debt and prepaid data services.

Shareholders' equity was $12.0 million at December 31, 2003, a $3.1 million increase from $8.8 million in 2002 primarily due to the $2.2 million in earnings plus $1.2 million for contingent consideration earned for the TCS acquisition.

Share capital was $48.9 million at December 31, 2003 compared to $47.0 million at December 31, 2002, a $1.2 million increase during the year resulting from common shares earned as contingent consideration payable for the TCS acquisition and issuance of common shares as payment of the preferred share dividend.

Debt-to-equity ratio improved to 1.7:1 at December 31, 2003, compared to 2.5:1 at December 31, 2002 as the Company continued to accrue earnings from operations and pay down debt.

Cash and cash equivalents and term deposits at December 31, 2003 were $5.9 million, a $1.4 million decrease compared to $7.3 million at December 31, 2002.

The Company believes its cash flow from operations together with other sources of funds will be adequate to meet its operating requirements in 2004. However, the Company may raise additional funds through debt and the issuance of securities for capital expenditures, to finance acquisitions, support future business opportunities, improve working capital and further reduce long-term debt.

Contractual Obligations

The Company is party to contractual obligations involving commitments to make payments to third parties. The following obligations are recorded and others are disclosed in various notes to the financial statements. The impact that our contractual obligations are expected to have on our liquidity and cash flow in future periods is as follows:

	Payments Due by Period ('000s)					
	2004	2005	2006	2007	2008 and thereafter	Total
Long-term debt	$ 3,200	$ 2,400	$ 2,000	$ 2,000	$ 2,965	$ 12,565
Capital lease obligations	1,701	859	61	61	41	2,723
Operating leases	2,492	1,941	815	392	439	6,079
Total contractual obligations	**$ 7,393**	**$ 5,200**	**$ 2,876**	**$ 2,453**	$ 3,445	**$ 21,367**

Forward Looking Statements

Statements in this report relating to matters that are not historical fact are forward-looking statements based on current expectations, forecasts, and assumptions that involve risks and uncertainties that could cause actual outcomes and results to differ materially. Factors that could cause or contribute to such differences include, but are not limited to changes in markets and competition, technological and competitive developments and the cooperation and performance of strategic partners. More information on these and other potential factors that could affect the Company's financial results are detailed in documents filed with the Ontario Securities Commission.

Note: Adjusted earnings (loss), adjusted operating earnings before other items or operating earnings are earnings measures that do not have any standardized meaning prescribed by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other reporting entities due to differences in calculations. These non-GAAP earnings measures have been presented to enhance the understanding of our operating results.

Management's Report

The management of Datawest Solutions Inc. has prepared and is responsible for the integrity and fairness of the financial statements and other financial information included in this annual report. The financial statements are prepared in accordance with Canadian generally accepted accounting principles and, when appropriate, include amounts based on management's estimates and judgement.

To meet its responsibility both for the integrity and fairness of these financial statements and information, management maintains accounting systems and related internal accounting controls. These controls are designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are reliably maintained. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control must be related to the benefits derived.

Datawest's board of directors, acting through its audit, finance and risk committee composed of four directors, oversees management's responsibilities for the financial reporting and internal control systems. The committee reviews with management and auditors the annual financial statements prior to submission to the board of directors for approval.

KPMG, the independent auditors appointed by the shareholders, have examined our financial statements and issued their report which follows. The auditors have full and complete access to, and meet periodically with, the audit, finance and risk committee to discuss their audit and matters arising therefrom.

Darryl J. Yea
Chairman, CEO & President

Michael E. Johnson
Vice Chairman, COO & CFO

February 20, 2004

Auditors' Report to the Shareholders of Datawest Solutions Inc.

We have audited the consolidated balance sheets of Datawest Solutions Inc. as at December 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Vancouver, Canada

February 20, 2004

		2003		2002
Assets				
Current assets:				
Cash and cash equivalents	$	**4,584,872**	$	5,776,255
Amounts receivable (note 4)		**6,222,362**		7,139,792
Marketable securities, quoted market value $456,515 (2002 - $212,000)		**191,696**		164,830
Prepaid and other		**518,516**		1,158,766
		11,517,446		14,239,643
Term deposits (note 5)		**1,350,000**		1,500,000
Capital assets (note 6)		**14,775,158**		12,498,037
Other assets (note 7)		**2,060,842**		2,018,581
Goodwill (net of accumulated amortization of $637,000)		**12,807,135**		11,580,135
Future income taxes (note 18)		**44,599**		197,845
	$	**42,555,180**	$	42,034,241
Liabilities and Shareholders' Equity				
Current liabilities:				
Bank indebtedness (note 8)	$	**2,297,401**	$	2,017,151
Accounts payable and accrued liabilities		**4,969,800**		6,586,634
Accrued costs of discontinued operations (note 9)		**533,982**		910,076
Deferred revenue		**1,386,336**		1,555,251
Current portion of prepaid data services		**1,708,327**		1,465,489
Current portion of long-term debt		**3,600,000**		2,000,000
Current portion of obligations under capital leases		**1,440,402**		2,008,119
		15,936,248		16,542,720
Deferred revenue (note 10)		**1,018,212**		269,950
Prepaid data services (note 11)		**3,631,110**		3,167,585
Long-term debt (note 12)		**8,964,946**		10,965,070
Obligations under capital leases (note 13)		**1,012,341**		2,239,227
		30,562,857		33,184,552
Shareholders' equity:				
Share capital (note 14)		**48,883,523**		47,028,608
Deficit		**(36,891,200)**		(38,178,919)
		11,992,323		8,849,689
	$	**42,555,180**	$	42,034,241

Commitments (notes 14(g) and 21)
Contingencies (note 23)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

Chairman
Darryl J. Yea

Paul F. Starita

Director
Paul F. Starita

Consolidated Statements of Operations and Deficit
Years ended December 31, 2003 and 2002

		2003		2002
Revenue:				
Banking Solutions	$	**26,933,217**	$	28,093,258
Payment Solutions		**17,526,800**		16,870,687
		44,460,017		44,963,945
Expenses:				
Service and operations		**25,768,562**		30,171,990
General and administrative		**4,753,977**		5,345,746
Sales and marketing		**1,631,442**		2,482,966
Research and development		**2,949,977**		2,826,208
Restructuring and other charges (note 15)		**1,200,139**		8,911,323
		36,304,097		49,738,233
Operating earnings (loss) before other items:		**8,155,920**		(4,774,288)
Other items:				
Interest expense (note 16)		**2,034,176**		2,071,491
Amortization of capital and other assets		**4,347,215**		4,685,054
Other income, net (note 17)		**(469,190)**		(4,924,388)
		5,912,201		1,832,157
Earnings (loss) before income taxes		**2,243,719**		(6,606,445)
Income taxes (note 18)		**36,000**		46,750
Earnings (loss) for the year		**2,207,719**		(6,653,195)
Deficit, beginning of year		**(38,178,919)**		(30,680,724)
Dividends paid		**(780,000)**		(845,000)
Part VI.1 tax on distributions		**(140,000)**		-
Deficit, end of year	$	**(36,891,200)**	$	(38,178,919)
Earnings (loss) per common share (notes 2(h) and 14 (f))				
Basic	$	**0.05**	$	(0.29)
Diluted		**0.04**		(0.29)
Weighted average number of common shares outstanding (note 14(f))				
Basic		**28,501,920**		25,717,522
Diluted		**29,001,941**		25,717,522

See accompanying notes to consolidated financial statements

		2003		2002
Cash flow provided by (used in):				
Operations:				
Earnings (loss) for the year	$	2,207,719	$	(6,653,195)
Items not involving cash:				
Other income, net (note 17)		(275,600)		(4,267,102)
Amortization of capital and other assests		4,347,215		4,685,054
Write-down of capital assets (note 15)		-		6,255,956
Deferred financing charges		69,861		54,525
		6,349,195		75,238
Changes in non-cash working capital (note 19)		438,685		558,336
		6,787,880		633,574
Investments:				
Decrease (increase) in term deposits		150,000		(1,043,904)
Purchase of capital assets		(6,024,929)		(2,326,512)
Purchase of other assets		(60,318)		(300,435)
Proceeds from disposal of other assets, net of costs (note 7)		290,958		4,267,102
		(5,644,289)		596,251
Financing:				
Increase (decrease) in bank indebtedness		280,250		(215,312)
Proceeds from long-term debt		2,400,000		-
Repayment of long-term debt		(2,800,124)		(2,292,301)
Repayments under capital leases		(2,030,003)		(1,840,803)
Issuance of common shares, net of costs (note 14 (b))		-		4,837,640
Increase in deferred financing charges		(54,012)		-
Increase in equity loan advances		(131,085)		-
		(2,334,974)		489,224
(Decrease) increase in cash		(1,191,383)		1,719,049
Cash and cash equivalents, beginning of year		5,776,255		4,057,206
Cash and cash equivalents, end of year	$	4,584,872	$	5,776,255
Supplementary information:				
Interest paid during the year	$	1,952,016	$	1,956,215
Income taxes paid during the year		35,704		488,211
Non-cash financing/investing activities:				
Common shares issued on renewal of data services agreements		-		378,225
Common shares to be issued on business acquisition		1,227,000		235,500
Common shares issued as payment of preferred share dividend		780,000		780,000
Common shares issuable as payment of preferred share dividend		65,000		65,000
Reclassification of share purchase loans to equity		21,000		-
Capital assest additions financed through capital leases		235,400		-
Part VI.1 tax on preferred share distributions		140,000		-

See accompanying notes to consolidated financial statements

1. Nature of operations:

Datawest Solutions Inc. (the "Company" or "Datawest") is incorporated under the Canada Business Corporations Act and is a provider of banking and payment technology solutions.

2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

All material inter-company balances and transactions have been eliminated upon consolidation.

(b) Change in accounting policy:

Effective January 1, 2002, the Company applied the fair value based method of accounting prescribed by the Canadian Institute of Chartered Accountants ("CICA") in Handbook ("HB") section 3870, "Stock-Based Compensation and Other Stock-based Payments", to stock-based payments to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, and elected to apply the intrinsic value based method of accounting for other stock-based compensation awards granted to employees. Under the intrinsic value based method, compensation expense is recognized as the excess of the market price of the underlying award over the exercise price at the date of grant.

The CICA Accounting Standards Board amended CICA HB section 3870 to require entities to account for other stock-based compensation awards granted to employees using the fair value based method for fiscal years beginning on or after January 1, 2004. Under the fair value based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. During the fourth quarter of fiscal 2003, the Company elected to adopt the fair value method for other stock-based compensation awards granted to employees, effective January 1, 2003. Under the prospective method of adoption selected by the Company, no stock-based compensation cost was recognized in 2003, as no stock options were granted during fiscal 2003. The Company discloses the pro forma effect of accounting for these awards under the fair value based method had the fair value recognition provisions been applied to all employee awards granted on or after January 1, 2002 (see note 14(e)).

(c) Cash and cash equivalents:

Cash equivalents include short-term deposits with maturities of 90 days or less when acquired.

(d) Marketable securities:

Marketable securities are recorded at the lower of cost and quoted market value.

(e) Capital assets:

Capital assets are recorded at cost. Development costs for major new hosted systems offered to clients are deferred and amortized on a straight-line basis over the estimated useful lives of the systems. All other research and development costs are charged to operations in the year incurred. The Company does not capitalize incremental interest incurred during the development phase. Research and development tax credits received, if any, are deducted from the cost of the asset.

Capital assets are assessed for future recoverability on an annual basis by estimating future net undiscounted cash flows. When the net carrying amount of a capital asset exceeds its estimated net recoverable amount, the asset is written down with a charge to income.

Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Useful life
Furniture and fixtures	3 to 6 years
Equipment	3 to 5 years
Communications equipment	4 years
Banking systems	3 to 7 years
Ancillary products	6 to 10 years
Transaction processing switch	5 years

(f) Deferred financing charges:

Deferred financing charges represent the unamortized cost of obtaining debt financing. Amortization is provided on a straight-line basis over the term of the related debt and is included in interest expense for the year.

(g) Goodwill:

Goodwill represents the excess of the purchase price over the fair values of net assets acquired. Effective January 1, 2002, the Company adopted CICA HB section 3062, "Goodwill and Other Intangible Assets". Under these recommendations, goodwill is no longer amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the

implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of operations before extraordinary items and discontinued operations. The Company has completed the transitional and annual impairment tests and concluded that no goodwill impairment charge is required.

(h) **Earnings (loss) per common share:**

Basic earnings or loss per common share is computed by dividing earnings or loss available to common shareholders for the year by the weighted average number of common shares outstanding during the year. Diluted earnings or loss per common share is computed similar to basic earnings per common share except that the weighted average number of common shares outstanding is increased to include additional common shares from the assumed exercise of share options, if dilutive. The number of additional common shares is calculated by assuming that outstanding share options were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

For the year ended December 31, 2003, options to purchase 2,055,100 (2002 – 2,503,000) common shares and warrants to purchase 1,562,500 (2002 – 1,562,500) common shares were outstanding during the year but were not included in the computation of diluted loss per share as they were anti-dilutive.

(i) **Revenue recognition:**

Data and transaction processing and professional services revenues are recognized as the related services are provided when there is persuasive evidence of an arrangement, collection is probable and the fee is fixed or determinable. Revenue on long-term development contracts is recognized using the percentage-of-completion method based on hours and materials costs incurred relative to total estimated costs. Changes in estimates of contract price, total estimated costs, or estimated losses, if any, are included in the determination of estimated cumulative revenues and expenses in the period the change is determined by management.

In accordance with the provisions of the American Institute of Certified Public Accountants' Statement of Position 97-2 "Software Revenue Recognition", revenue from one-time software license sales is generally recognized once delivery has occurred and collection of the fee is probable, provided there are no significant vendor obligations remaining. If there is a requirement for client acceptance of any products delivered, revenue is only recognized after client acceptance has been achieved. Revenues related to the maintenance and support of software licenses are recognized ratably over the term of the contract.

For multiple-element sales arrangements, revenue is allocated to each element based upon objective evidence of fair value, or verifiable objective evidence of fair value in the case of software license sales, of each element at the inception of the sales arrangement. For certain multiple-element sales or service arrangements, revenue is allocated by the residual value method whereby the fair value of the undelivered elements is determined by reference to objective evidence, or verifiable objective evidence in the case of software license sales, from comparable arrangements with the balance of the fees assigned to the delivered elements.

Revenue is recognized for each element when there are no remaining performance obligations required based upon their relative fair value at the inception of the sales arrangement. When fair value cannot be determined for each element, revenue is deferred until objective, or verifiable objective evidence in the case of software license sales, exists or is recognized as the final elements are delivered.

Prepayments for services are amortized to income over the period the services are delivered. Deferred revenue consists of client prepayments for services and products sales prior to revenue being recognized.

(j) **Foreign currency:**

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(k) **Income taxes:**

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

A valuation allowance is recognized to the extent the recoverability of future income tax assets is not considered to be more likely than not.

(l) **Share purchase loans:**

Loans to employees to acquire common shares in the Company are secured by the common shares purchased and are recorded in shareholders' equity. Certain employee share purchase loans that are also secured by recourse notes are recorded as assets. The loans are repayable over various terms from July 1, 2004 to October 1, 2008 and bear interest at the Canadian prime rate. The market value of shares securing outstanding loans totals $173,308 (2002 – $158,041).

(m) **Research and development costs:**

Research costs are expensed as incurred. Development costs are deferred if the product or process and its market or usefulness are clearly defined, the product or process has reached technical feasibility, adequate resources exist or are expected to exist to complete the project and management intends to market or use the product or process. If these criteria are not met, the development costs are expensed as incurred.

Government funding of eligible research and development expenditures are credited when earned against research and development expenses or the cost of property and equipment, to which the funding related. During the year ended December 31, 2003, $401,701 (2002 – nil) was earned and credited against research and development expenses.

(n) **Use of estimates:**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant areas requiring the use of estimates are the useful life of capital assets, provision for the settlement of outstanding claims, allowance for doubtful accounts, the fair value of goodwill, and the net recoverable amount of capital assets. Actual results could differ materially from those estimates used in the financial statements.

(o) **Comparative figures:**

Certain comparative figures have been reclassified in order to conform with the presentation adopted for the current year.

3. Acquisition:

Effective May 31, 2001, the Company acquired all of the issued and outstanding shares of TCS (Canada) Limited ("TCS"), a provider of electronic payments software and processing services for the global financial services industry. The transaction has been accounted for as a purchase and the assets acquired and the liabilities assumed were recorded at their fair market values on May 31, 2001. The results of operations of the acquired company have been included in the Company's consolidated financial statements as of the effective date of the acquisition.

The purchase price included $5,000,000 in cash, 1,666,667 common shares issued at a fair value of $2.35 per share on May 31, 2001 and $2,000,000 of additional common shares to be issued. As a post-closing adjustment, 256,410 common shares were issued at a fair value of $1.45 per share on September 13, 2001.

The Company may elect to issue the additional common shares at any time before the third anniversary of the acquisition date. The issuance price for the additional common shares to be issued will be the greater of the prevailing market price for the 20 consecutive trading days preceding the date of issuance and $2.50 per share. As at December 31, 2003, no additional common shares had been issued.

The acquisition agreement also provides for an amount not to exceed $3,000,000 in shares to be issued to the former TCS shareholders based upon certain performance criteria being met, with the shares being issued at the greater of the prevailing market price for the 20 consecutive trading days up to and including December 31, 2003 and $2.50 per share. At December 31, 2003, the former TCS shareholders earned in aggregate $2,175,000 (2002 – $948,000) of the contingent consideration. The additional contingent consideration of $1,227,000 in 2003 (2002 – $235,500) was recorded as an addition to goodwill. The total fair value assigned to goodwill was $13,444,135 at December 31, 2003 (2002 – $12,217,135).

All common shares issued and to be issued to the former TCS shareholders in relation to this acquisition are subject to an escrow arrangement. As at December 31, 2003, $4,175,000 (2002 – $2,948,000) of common shares were still to be issued to the former shareholders of TCS.

4. Amounts receivable:

	2003	2002
Trade receivables	**$ 6,161,838**	$ 6,833,516
Other receivables	**60,524**	306,276
	$ 6,222,362	$ 7,139,792

5. Term deposits:

Term deposits have been pledged as security for transaction processing settlement services.

6. Capital assets:

	2003	2002
Furniture and fixtures	**$ 2,911,568**	$ 2,755,574
Equipment	**10,634,589**	10,137,162
Communications equipment	**7,190,602**	7,190,602
Banking system	**22,272,339**	17,632,785
Ancillary products	**3,546,822**	3,546,822
Transaction processing switch	**3,399,236**	2,431,882
	49,955,156	43,694,827
Accumulated amortization	**(35,179,998)**	(31,196,790)
	$ 14,775,158	$ 12,498,037

Included in banking system and ancillary products are assets under capital lease with an initial cost of $6,434,000 (2002 – $6,199,000) and related accumulated amortization of $3,323,000 (2002 – $2,643,000).

Included in capital assets are $1,431,000 (2002 – $1,756,000) in assets not being amortized as they are presently under development.

During the prior year, the Company recorded a $6,256,000 write-down to reflect the reduction of the carrying value of certain capital assets that will not be in use in the business going forward. $5,492,000 of the write-down related to the banking system assets and $764,000 related to the transaction processing switch.

7. Other assets:

	2003	2002
Contract renewal payments (note 14(g))	$ 1,635,620	$ 1,635,620
License	267,500	267,500
Long-term portion of prepaid expenses	398,157	-
Deferred financing charges	561,535	507,523
	2,862,812	2,410,643
Accumulated amortization	(1,160,637)	(726,769)
	1,702,175	1,683,874
Deposits and other	120,289	120,289
Stock exchange shares	-	15,358
Employee share purchase loans	238,378	199,060
	$ 2,060,842	$ 2,018,581

The Company purchased a license to sell certain software, developed by a third party, to Canadian financial institutions. Amortization is provided on a straight-line basis over five years, being the term of the license.

During the year, the Company sold its 80,822 common shares of the Bourse de Montreal for cash proceeds of $290,958 resulting in a gain of $275,600.

During the prior year, the Company sold its twenty common shares of the TSX Inc. for cash proceeds of $4,267,102 resulting in a gain of $4,267,102.

8. Bank indebtedness:

The Company's operating loan bears interest at the Canadian prime rate plus 0.50 percent and is secured by the same security as the term loan facility (note 12). At December 31, 2003, the Company had available credit of $202,599.

9. Accrued costs of discontinued operations:

	2003	2002
Amount payable to an officer and director of the Company (note 22(e))	$ -	$ 395,938
Accrued costs of discontinued operations	533,982	514,138
	$ 533,982	$ 910,076

Accrued costs of discontinued operations represent:

(a) provision for costs associated with the disposal of certain businesses; and

(b) accrued costs for settlement of legal proceedings related to discontinued operations of certain non-operating subsidiaries (note 23).

During the year, the Company accrued additional costs of $250,000 (2002 – $265,428) for discontinued operations.

10. Deferred revenue:

	2003	2002
Deferred revenue	$ 2,134,598	$ 1,420,276
Deferred gain on sale of assets	269,950	404,925
	2,404,548	1,825,201
Current portion	1,386,336	1,555,251
	$ 1,018,212	$ 269,950

11. Prepaid data services:

	2003	2002
Prepayments for data services, bearing interest at rates ranging from prime to prime plus 4.00%	$ 5,339,437	$ 4,633,074
Current portion	1,708,327	1,465,489
	$ 3,631,110	$ 3,167,585

During the year, the Company received $2,450,000 (2002 – $3,450,000) as prepayments for data services. During the year $1,743,637 (2002 – $1,241,453) was applied against these prepaid data services.

12. Long-term debt:

	2003	2002
Term loan facility bearing interest at the Canadian prime rate plus 0.75%, repayable in monthly principal installments of $166,667 plus interest, to October 31, 2009. In addition, on May 31 of each year, the Company is required to pay an additional amount equal to 50% of net cash flow for the fiscal year ended prior to such date.	$ 10,964,946	$ 12,965,070
Demand loan facility bearing interest at the Canadian prime rate plus 2.00%, repayable in monthly principal installments of $100,000 plus interest, to April 30, 2005.	1,600,000	-
These loans are secured by a first floating charge over the property and assets of the Company, its wholly owned subsidiary Datawest Technology Services Ltd. and Datawest Solutions Partnership, except for a general assignment of accounts receivable from January 2002 to July 2004		
	12,564,946	12,965,070
Current portion	3,200,000	2,000,000
Remaining demand loan facility	400,000	-
	$ 8,964,946	$ 10,965,070

Minimum principal repayments required in each of the next five years ending December 31 are as follows:

2004	$	3,200,000
2005		2,400,000
2006		2,000,000
2007		2,000,000
2008 and thereafter		2,964,946
	$	12,564,946

During the year, the Company received a demand loan facility of $2,400,000 for the purchase of certain hardware and software assets that were previously provided for under an operating lease.

13. Obligations under capital leases:

The Company has obligations under capital lease agreements for certain computer equipment, the banking system and the ancillary products, which provide for interest at rates ranging from 7.85 percent to 11.00 percent per annum. The following is a schedule of future minimum payments under capital leases together with the balance of the obligation under capital leases as at December 31, 2003:

2004	$	1,701,471
2005		859,086
2006		61,416
2007		61,416
2008		40,944
		2,724,333
Interest		271,590
		2,452,743
Current portion		1,440,402
	$	1,012,341

14. Share capital:

(a) **Authorized:**

Unlimited number of common shares without par value

Unlimited number of First Preferred shares without par value, issuable in series as follows:

10,000,000 are designated as Series A, with a cumulative dividend at 6 percent of subscription price, payable in either cash, common shares or any combination thereof at the Company's option, and convertible into common shares at a stated conversion rate and retractable for either cash or common shares, at the Company's option.

150,000 are designated as Series B

150,000 are designated as Series C

100,000 are designated as Series D

(b) **Issued and outstanding and to be issued:**

	Issued: Number of shares	Issued: Amount	To be issued: Amount	Total
(i) **Common shares:**				
Balance at December 31, 2001	22,899,095	$ 25,389,455	$ 2,712,500	$ 28,101,955
Issued on renewal of data services agreements	229,612	378,225	-	378,225
Issued as payment of preferred share dividend	686,068	780,000	-	780,000
Issued on private placement	3,125,000	5,000,000	-	5,000,000
Share issue costs	-	(162,360)	-	(162,360)
To be paid for payment of preferred share dividend	-	-	65,000	65,000
To be issued for the acquisition of TCS (note 3)	-	-	235,500	235,500
Balance at December 31, 2002	**26,939,775**	**31,385,320**	**3,013,000**	**34,398,320**
Issued as payment of preferred shared dividend	1,205,130	780,000	-	780,000
Contingent consideration shares to be issued (note 3)	-	-	1,227,000	1,227,000
Balance at December 31, 2003	**28,144,905**	**32,165,320**	**4,240,000**	**36,405,320**
(ii) **Series A preferred shares:** Balance at December 31, 2003, 2002 and 2001	5,000,000	12,630,288	-	12,630,288
(iii) **Equity loan - 2003**	-	**(152,085)**	-	**(152,085)**
Total share capital		**$ 44,643,523**	**$ 4,240,000**	**$ 48,883,523**

On May 31 and November 30, 2003, respectively, the Company issued 559,649 common shares valued at $390,000 and 645,481 shares valued at $390,000 as payment for the preferred share dividend.

(c) **Escrow shares:**

As at December 31, 2003, there were 384,617 (2002 – 1,153,847) shares in escrow pursuant to a voluntary pooling agreement between the Company and certain of its shareholders. These shares are being released from escrow on May 31, 2004.

(d) Stock option plan:

The Company has a stock option plan that grants to directors, employees and non-employees of the Company options to purchase up to 4,000,000 common shares. The exercise price of each option is generally determined to be the market price of the Company's stock on the date of the grant and an option's maximum term is 10 years. Options vest and become exercisable evenly, from the date of the option over a four-year period. Upon termination of employment, in general, all vested options may be exercised by an employee within 90 days of termination date. A summary of the stock option activity under the plan is as follows:

	Number of stock options	Weighted average exercise prices
Outstanding, December 31, 2001	2,429,700	$2.54
Granted during the year	517,700	2.52
Cancelled during the year	(444,400)	(2.55)
Outstanding, December 31, 2002	2,503,000	2.53
Cancelled during the year	(447,900)	(2.53)
Outstanding, December 31, 2003	2,055,100	$2.54

The stock options outstanding at December 31, 2003 expire between February 28, 2010 and November 17, 2012.

Additional information regarding options outstanding as at December 31, 2003 is as follows:

Options outstanding				Options exercisable	
Exercise prices	Number of shares	Weighted average remaining contract life (years)	Weighted average exercise prices	Number of shares	Weighted average exercise prices
$2.52	1,970,100	7.14	$ 2.52	1,293,025	$ 2.52
$2.69	25,000	7.12	2.69	12,500	2.69
$2.85	35,000	6.74	2.85	26,250	2.85
$3.35	25,000	6.32	3.35	18,750	3.35
	2,055,100	7.12	$ 2.54	1,350,525	$ 2.54

(e) Pro forma stock-based compensation:

The Company applied the intrinsic value based method of accounting for stock-based compensation awards granted to employees from January 1, 2002 to December 31, 2002 and the fair value method to employee awards granted thereafter (note 2 (b)). No compensation cost has been recognized for stock options granted to employees during the twelve months ended December 31, 2002 and 2003. Had compensation cost for these employee stock options been determined based on the fair value based method of accounting for stock-based compensation for awards granted on or after January 1, 2002, the Company's earnings (loss) and earnings (loss) per share would have been adjusted to the pro forma amounts indicated below:

Pro forma stock-based compensation (continued):

	2003	2002
Earnings (loss) for the year:		
As reported	**$ 2,207,719**	$ (6,653,195)
Pro forma	**1,999,521**	(6,842,601)
Basic earnings (loss) per common share:		
As reported	**0.05**	(0.29)
Pro forma	**0.04**	(0.30)
Diluted earnings (loss) per common share:		
As reported	**0.04**	(0.29)
Pro forma	**0.04**	(0.30)

The fair value of each option granted in 2002 was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	5.36%
Dividend yield	0%
Expected option lives	6 years
Volatility	116%

The weighted average grant date fair value of options granted in 2002 was $1.31. No employee awards were granted in 2003.

(f) Earnings (loss) per share:

	2003	2002
Earnings (loss) for the year	**$ 2,207,719**	$ (6,653,195)
Less: Preferred share dividends	**(780,000)**	(845,000)
Part VI.1 tax on distributions	**(140,000)**	-
Earnings (loss) available to common shareholders (basic and diluted)	**$ 1,287,719**	$ (7,498,195)
Weighted average common shares issued	**27,322,720**	24,632,522
Shares to be issued as consideration (note 3)	**800,000**	800,000
Contingent consideration shares to be issued (note 3)	**379,200**	285,000
Weighted average common shares - basic	**28,501,920**	25,717,522
Contingent consideration shares to be issued (note 3)	**490,800**	-
Bonus shares to be issued	**9,221**	-
Weighted average common shares - diluted	**29,001,941**	25,717,522
Basic earnings (loss) per share	**$ 0.05**	$ (0.29)
Diluted earnings (loss) per share	**$ 0.04**	$ (0.29)

(g) **Contract renewal payments:**

As part of the DTS acquisition in 2000, current British Columbia banking system clients were offered bonus shares to a maximum amount of $3,000,000 to enter into or renew their Data Services Agreements for a minimum term of five years, payable by the issuance of common shares. These inducements expired on December 31, 2003.

Upon a client renewing its Data Services Agreement, the Company will record its obligation to issue common shares at the prevailing market value as a credit to share capital and a debit to deferred asset (note 7), which will be amortized over the term of the respective renewal contract.

15. Restructuring and other charges:

	2003	2002
Workforce reduction	**$ 1,000,378**	$ 2,192,698
Non-cash capital asset write-downs	-	6,255,956
Premises restructuring	-	277,669
Other	**199,761**	185,000
	$ 1,200,139	$ 8,911,323

In August 2002, the Company implemented a business restructuring to streamline business operations and improve operating efficiency in the Banking Solutions segment. This strategy included a provision for workforce reductions, capital asset write-downs, and charges related to premises and other purchase commitments. The workforce reduction charges primarily related to severance and related benefits for the termination of 53 positions primarily in fulfillment and administrative departments. The Company also wrote down capital assets to reflect the reduction of the carrying value of certain capital assets that will not be in use in the business going forward.

In November 2003, the Company implemented a business restructuring to further streamline business operations and improve operating efficiency in the Banking Solutions segment. This strategy included a provision for workforce reductions and other purchase commitments. The workforce reduction charges primarily related to severance and related benefits for the termination of approximately 16 positions in fulfillment departments.

As at December 31, 2003, $1,022,273 (2002 – $843,676) of these costs are accrued as liabilities.

16. Interest:

Interest expense includes interest incurred in respect of the following:

	2003	2002
Operating loan	**$ 274,663**	$ 331,853
Prepaid data services	**406,805**	317,644
Long-term debt	**840,554**	754,852
Capital lease obligations	**512,154**	667,142
	$ 2,034,176	$ 2,071,491

17. Other income, net:

	2003	2002
Gain on disposal of TSX shares (note 7)	**$ -**	$ 4,267,102
Gain on disposal of Bourse de Montreal shares (note 7)	**275,600**	-
Settlement of contract	**171,000**	292,000
Loss on discontinued operations (note 9)	**(250,000)**	(235,000)
Investment income	**137,615**	298,321
Gain on sale of assets	**134,975**	198,886
Miscellaneous	**-**	103,079
	$ 469,190	$ 4,924,388

Settlement of contract resulted from the accelerated payout of a banking and payments processing agreement due to the merger of a credit union client with another credit union during the year.

18. Income taxes:

(a) The Company has available net operating losses that may be carried forward and used to reduce future taxable income. The benefit of these losses has not been recognized in the financial statements and they expire as follows:

2005	$ -
2006	-
2007	411,000
2008	6,936,000
2009	4,599,000
2010	1,824,000
	$ 13,770,000

(b) The Company has no (2002 – $2,055,000) unclaimed scientific research and experimental development expenditures to be carried forward.

(c) Temporary differences give rise to the following future income tax assets and liabilities at December 31:

	2003	2002
Future income tax assets:		
Capital assets	**$ 9,667,000**	$ 7,375,000
Scientific research and experimental development expenditures	-	732,000
Other investments	**655,000**	833,000
Losses available for future periods	**4,905,000**	5,822,000
Gross future tax assets	**15,227,000**	14,762,000
Valuation allowance	**(14,689,401)**	(13,718,155)
Future income tax assets	**537,599**	1,043,845
Future income tax liability: Financing costs and other	**(493,000)**	(846,000)
Net future income tax assets	**$ 44,599**	$ 197,845

(d) The differences between the effective tax rate reflected in the provision for income taxes and the Canadian statutory income tax rate are as follows:

	2003	2002
Corporate statutory income tax rate	**37.6%**	39.6%
Deduct the effect of:		
Expenses not deductible for income tax purposes	**1.6**	0.9
Change in valuation allowance allocated to future tax assets	**(44.0)**	(39.8)
Part VI.1 tax on distributions	**5.9**	-
Other	**0.5**	-
Effective tax rate	**1.6%**	0.7%

19. Changes in non-cash operating capital:

	2003	2002
Amounts receivable	**$ 917,430**	$ 950,660
Marketable securities	**(26,866)**	(21,494)
Prepaid and other	**640,250**	(219,547)
Accounts payable and accrued liabilities	**(1,756,834)**	(1,285,706)
Accrued costs of discontinued operations	**(376,094)**	(598,153)
Income taxes	**153,246**	(556,886)
Deferred revenue	**579,347**	80,915
Prepaid data services	**706,363**	2,208,547
Long-term portion of prepaid expenses	**(398,157)**	-
	$ 438,685	$ 558,336

20. Financial instruments:

(a) **Interest rate risk:**

The Company did not have outstanding interest rate hedges in place at December 31, 2003 and 2002. The exposure to upward interest rate movements relating to the operating loan and long-term debt is monitored by the Company on a regular basis.

(b) **Credit risk:**

Credit risk reflects the risk that the Company may be unable to recover amounts receivable. The Company has a significant number of individual contracts and only one client represents 13 percent of consolidated revenue and another client represents 10 percent in fiscal year 2003. During 2002, only one significant customer existed with revenues of 15 percent of consolidated revenues. The Company employs established credit approval practices to further mitigate this risk.

(c) **Currency risk:**

Approximately eight percent (2002 – eight percent) of the Company's revenues were denominated in United States dollars while all of the Company's expenditures were denominated in Canadian dollars. Fluctuations in the exchange rates between Canadian and United States dollars could have a material effect on the Company's business, financial condition and results of operations. The Company has not entered into foreign currency contracts or other instruments to mitigate this risk.

(d) **Fair value:**

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, marketable securities, term deposits, accounts payable and accrued liabilities, deferred revenues, capital leases and long-term debt. It is management's opinion that the Company is not exposed to significant interest or currency risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

21. Commitments:

(a) **Lease obligations and maintenance agreements:**

The Company has operating leases on premises and equipment and maintenance agreements for varying terms up to a maximum of six years.

Aggregate payments in each of the five years ending December 31 are as follows:

2004	$ 2,491,538
2005	1,940,825
2006	815,068
2007	391,763
2008 and thereafter	438,921
	$ 6,078,115

(b) **TCS additional common shares:**

Pursuant to the TCS acquisition agreement (note 3), the Company is committed to issue $2,000,000 of additional common shares to the former TCS shareholders. The Company may elect to issue the additional common shares at any time before the third anniversary of the acquisition date at the greater of the prevailing market price for the 20 consecutive trading days preceding the date of issuance and $2.50 per share.

(c) **TCS additional consideration:**

Pursuant to the TCS acquisition agreement (note 3), if the former TCS shareholders meet certain performance based criteria, the Company has an obligation to pay additional consideration in the form of common shares to be issued to the former TCS shareholders.

As at December 31, 2003, the former TCS shareholders earned in aggregate $2,175,000 (2002 – $948,000) in common shares to be issued at the greater of the prevailing market price for the 20 consecutive trading days up to and including December 31, 2003 and $2.50 per share.

22. Related party transactions:

(a) The Company derives approximately 54 percent (2002 – 53 percent) of its total revenues from its financial institution shareholders under agreements at market rates. These long-term agreements have varying termination dates extending to 2010.

(b) Account balances resulting from operating transactions with financial institution shareholders are included in the balance sheet and are settled in normal trade terms including the charging of interest on outstanding balances.

(c) The Company leases one of its premises at normal commercial rates from Credit Union Central of BC, a financial institution shareholder.

(d) During the year, the Company paid consulting fees of nil (2002 – $45,000) to a corporation controlled by a director of the Company.

(e) The remaining balance of $395,938 that was included in accrued costs of discontinued operations in the prior year, was paid to an officer and director of the Company during the year.

(f) In the prior year certain employees, an officer and director, and a company related to a client of the Company participated in the July 10, 2002 private placement. The employees acquired 50,000 common shares valued at $80,000, the officer and director acquired 75,000 common shares valued at $120,000, and the company related to a client of the Company acquired 1,562,500 common shares valued at $2,500,000.

(g) An executive of the Company acquired shares by way of an employee share purchase plan in 2003 of $60,318 (2002 – $37,956). The loan is repayable in twelve quarterly installments commencing January 1, 2005 and bears interest at the Bank of Montreal's prime interest rate per annum.

23. Contingencies:

The Company and its wholly owned subsidiaries are defendants in several outstanding legal proceedings related to discontinued operations of former operating subsidiaries that were in the stock brokerage and financial planning businesses, namely C.M. Oliver & Company Limited ("CMO") and Planvest Financial Services Inc. ("PFSI") (formerly C.M. Oliver Financial Corporation). CMO ceased operations in October 1998 and PFSI ceased operations in May 1999.

The Company views the legal claims, other than as noted below, to be immaterial individually and in aggregate and adequate provisions for likely losses, if any, have been recorded (note 9). Ultimately, however, such provisions may be inadequate. In the event that costs and damages associated with legal proceedings exceed these provisions, such losses would be charged against discontinued operations in the period they were determinable.

(a) In January 1998, a claim was filed against CMO, a former broker and third-party co-defendants related to a deposit of shares by the plaintiff in an account with CMO as well as trading activities in this account. The plaintiff alleges that trading in his account in 1996 and 1997 was undertaken by the former broker under instructions from the co-defendants pursuant to an improperly obtained power of attorney. The claim, as amended in November 2003, seeks unspecified general and special damages, costs and interest against the defendants. Mediation has been scheduled for May 2004 and if unsuccessful, a trial date has been scheduled for June 2005.

(b) In March 2000, four claims were filed against a number of unrelated co-defendants as well as CMO related to a series of real estate transactions in 1994 and 1995 involving a common promoter. CMO is a defendant as a result of the unauthorized involvement of a former broker for allegedly providing investment advice. Pleadings and lists of documents have been exchanged and examinations for discovery have commenced and are ongoing with respect to this matter. The claims seek unspecified damages, costs and interest against the defendants.

With respect to the claims under (a) and (b) above, the Company and its legal counsel have determined that it is not possible at this time to predict the final outcome of these legal proceedings and that it is not possible to establish a reasonable estimate of possible damages, if any, or to reasonably estimate the range of possible damages that may be awarded to the plaintiffs.

24. Segmented information:

(a) **Industry segments:**

The Company operates the following business segments which have been segregated based on product offerings, reflecting the way that management organizes the segments within the business for making operating decisions and assessing performance.

(i) Banking Solutions primarily involves the provision of banking system services, software development and product and license sales to financial institutions in Canada.

(ii) Payment Solutions primarily involves the provision of switch services for the processing of ATM and POS transactions to financial institutions and businesses in Canada and software development and product and license sales to financial institutions in the Caribbean, United States, Europe, the Middle East and Asia.

(iii) Other comprises income and assets from the Company's unallocated corporate and discontinued operations.

2003	Banking Solutions	Payment Solutions	Other	Total
Revenues	$ 26,933,217	$ 17,526,800	$ -	$ 44,460,017
Segment contributions	5,796,572	2,358,004	1,344	8,155,920
Interest expense	1,968,451	65,725	-	2,034,176
Amortization of capital and other assets	3,569,874	777,341	-	4,347,215
Other income, net	385,030	61,560	22,600	469,190
Earnings (loss) before income taxes	643,277	1,576,498	23,944	2,243,719
Earnings (loss)	607,277	1,576,498	23,944	2,207,719
Segment assets	17,831,212	18,745,796	5,978,172	42,555,180
Additions to capital assets	5,059,148	1,180,635	20,546	6,260,329
Additions to goodwill	-	1,227,000	-	1,227,000

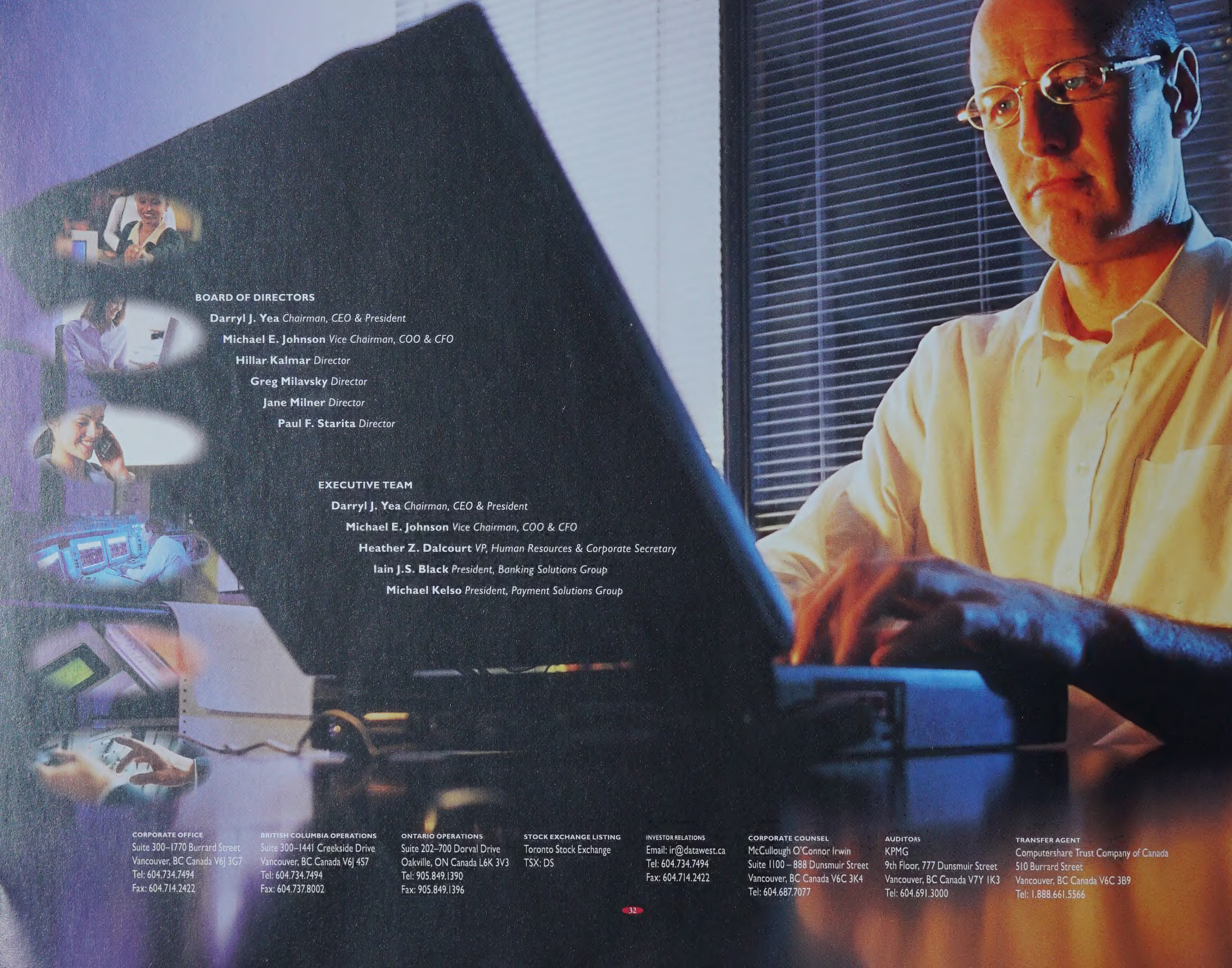
2002	Banking Solutions	Payment Solutions	Other	Total
Revenues	$ 28,093,258	$ 16,870,687	$ -	$ 44,963,945
Segment contributions	(1,162,769)	(3,611,519)	-	(4,774,288)
Interest expense	1,864,342	207,149	-	2,071,491
Amortization of capital and other assets	4,216,549	468,505	-	4,685,054
Other income, net	790,166	102,120	4,032,102	4,924,388
Earnings (loss) before income taxes	(6,453,494)	(4,185,053)	4,032,102	(6,606,445)
Earnings (loss)	(6,500,244)	(4,185,053)	4,032,102	(6,653,195)
Segment assets	16,890,502	16,735,112	8,408,627	42,034,241
Additions to capital assets	1,158,088	1,110,158	58,266	2,326,512
Additions to goodwill	-	235,500	-	235,500

The accounting policies for the business segments are the same as those described in note 2. There are no significant inter-segment revenues.

Other segment assets also include the Company's total cash and cash equivalents and term deposits which are considered corporate assets.

(b) **Geographic information:**

Ninety-two percent of revenues in 2003 (2002 – 94 percent) were to clients located in Canada with the remaining sales to clients located in the Caribbean, United States, Europe, the Middle East and Asia. Revenues from two clients of the Company's Banking Solutions segment individually represent greater than 10 percent of the Company's total revenue. One client represents $5,851,133 (2002 – $6,872,000) of the Company's total revenue. The other client represents $4,568,480 (2002 – $2,038,730) of the Company's total revenue. All goodwill and capital assets of the Company are located in Canada.



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Hillar Kalmar *Director*
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Jane Milner *Director*
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Iain J.S. Black *President, Banking Solutions Group*
Michael Kelso *President, Payment Solutions Group*

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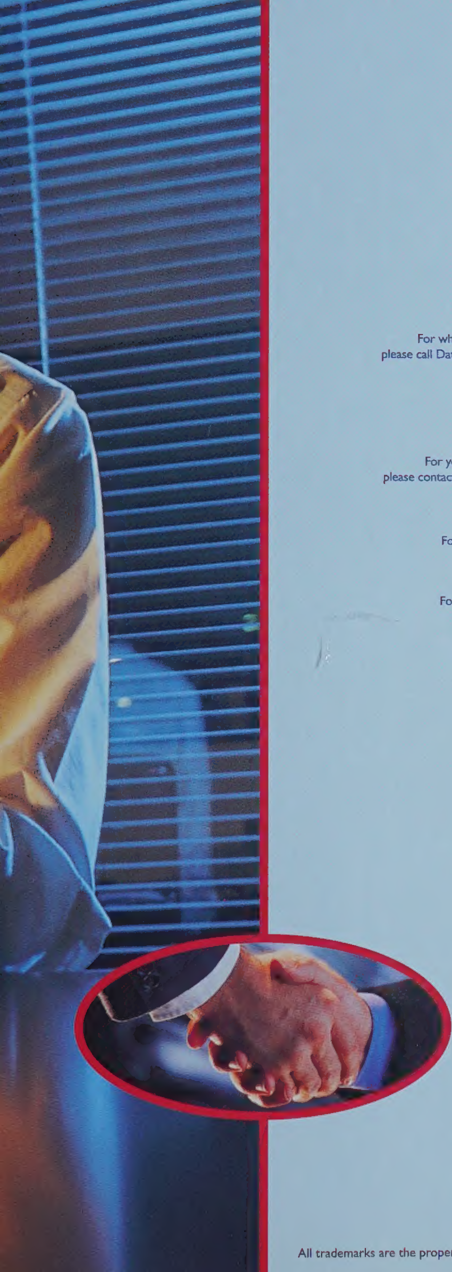

Payment Solutions Group

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Banking Solutions Group

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